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SUBJECT: SOES THRIVE AS TOURISM FOCUS SHIFTS FROM INTERNATIONAL TO
DOMESTIC

REF: 08 HANOI 1391

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¶1. (SBU) Summary: While the global economic downturn has reduced the number of international visitors by 16 percent in the first quarter, domestic tourism continues to expand and firms catering to that sector of the market seem to be picking up some of the employment slack. This is especially important because by some estimates, tourism employs over ten percent of Vietnam's workforce. The prime beneficiaries of this shift are the state-owned enterprises that dominate Vietnam's tourism sector. The GVN has led efforts to revive international tourism by reducing prices and fees. These efforts have yet to show results, and many operators are calling for more aggressive promotion in overseas markets and the easing of visa requirements. End Summary.

Domestic Tourism Offsetting the Drop in Foreign Visitors

¶2. (SBU) Overall international arrivals have fallen over sixteen percent in the last three months, with international business travel plummeting by over twenty five percent (reftel). The latter drop has hit HCMC, Vietnam's commercial hub, hard. Five star HCMC hotels report record low occupancy rates of below 50 percent, while luxury resorts along the central coast are filling only a quarter of their rooms. The drop off has prompted the GVN, state-owned and foreign-invested tourism firms, as well as domestic tourism companies, to launch promotion campaigns, lower prices and cut costs in an effort to resuscitate demand. Explosive growth in international tourism -- 4.2 million visitors last year, up from two million in 2001 -- had been one of the drivers of Vietnam's economic boom. According to the Vietnam National Administration of Tourism the tourism sector employed over ten percent of the nation's work force while a World Economic Forum study estimated it comprised between four and eight percent of GDP in 2008.

¶3. (SBU) While foreign tourists are staying home, Vietnam's middle class continues to travel, both domestically and regionally. Vietnam Airlines (VNA) Boeing 777s on the HCMC to Hanoi run are usually packed, and the airline told us that while international traffic is down 20 percent year on year, domestic volume is up four percent. Mr. My of Lua Viet Tours, which caters primarily to a Vietnamese clientele, said the company was adding tours to meet increasing demand. The company's most popular international offering, a four day bus tour to Angkor Wat, Cambodia sells for \$195 USD per person, all inclusive, and is usually sold out. A two day \$24 USD package to a beach town four hours from HCMC is the firm's most popular local tour.

Local consumers are also keeping the bars and restaurants of HCMC's high end hotels afloat. The manager of the HCMC Sheraton noted that while 85 percent of the five-star hotel's guests are foreigners (the hotel has not significantly lowered room rates), locals account for an analogous 85 percent of the hotel's food and beverage sales; they pack exclusive HCMC eateries on weekends to feast on pricey shark fin soup and abalone.

14. (SBU) In fact, some companies catering primarily to Vietnamese tourists are doing very well. General Director of Saigon Tourist, Mr. Nguyen Huu Tho, painted a rosy picture of the state-owned tourism conglomerate's finances: average yearly profit increases of 25 to 30 percent, a fifty-four percent surge in customers served in 2008 (against an increase of less than one percent nationwide), and the construction of three to four new hotels every year this decade, all financed from retained earnings. With over 100 hotels and resorts plus ownership of, or interests in, several airlines, golf courses, banks, and foreign travel agencies, the SOE's revenues surpassed \$500 million USD last year. According to Mr. Tho, the global downturn has yet to slow growth, with revenues for the first two months of 2009 in line with 2008's record breaking increase in revenue. As tourists economize by choosing cheaper lodgings, the occupancy rates at the three and four star hotels that make up the bulk of Saigon Tourist properties have remained over 70 percent. In contrast, Saigon Tourist's two five star HCMC hotels are only half-full, despite room rate reductions of up to 30 percent. Also, Vietnamese now account for some 50 percent of Saigon Tourist's revenues, which decreases the dependence on the foreign market according to Director of Saigon Tourist Travel Mr. Vo Anh Tai.

'Impressive Vietnam' Campaign Impresses Few

15. (SBU) Because the State has strong interest in supporting a sector that contributes directly to provincial and national budgets, few are surprised that GVN has been trying to promote

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tourism. Responding to the global economic downturn, the GVN has sought to lower costs for the tourism industry by, for example, halving the value added tax (VAT) on tourism services to five percent. The Vietnam National Tourism Association (dominated by State companies like Saigon Tourist) initiated a marketing campaign 'Impressive Vietnam' offering discounted package tours in the hope that cheaper prices will lure more international travelers. Saigon Tourist is the linchpin in the GVN's 'Impressive Vietnam' price reduction campaign, with many of the firm's hotels or resorts offering reduced room rates. Most of the benefits involve bundling services available under the broad State umbrella -- Vietnam Airlines is offering fare reductions of 30 to 60 percent to the approximately 40 tour agencies that have signed on.

16. (SBU) Few foreign-invested hotels are taking part because they prefer to maintain control of their pricing strategy and see little benefit from the program. Tourism officials say the number of international visitors continues to slide. Hoteliers and travel agency owners are particularly distressed at the lack of international advertising. They insist that until it develops a tourism brand akin to "Incredible India" or "Malaysia Truly Asia" Vietnam's potential as a high-end tourism destination will not be realized. Several private tour operators suggested funding an effective international promotion would be an appropriate use of GVN economic stimulus funds. Hoteliers and travel company officials called for stronger measures, most citing 'visa upon entry' travel and more aggressive promotion in overseas markets as key to rebuilding tourist numbers.

SOEs Quietly Dominates Vietnam's Tourism Sector

17. (SBU) Most would be surprised at the level of State involvement in the tourism industry, one industry analyst explained, not just state-owned monopolies like Vietnam Airlines or historic colonial-era jewels like HCMC's Continental or

Majestic hotels, but also substantial equity stakes in the five-star internationals. After "reunification" in 1975 resorts and hotels in southern Vietnam were nationalized and were managed by the Ministry of Public Security. "In the official mind" many hotels and resorts, or even the tourism sector in general, remains associated with "reunification", according to the director of a major 5-star international hotel in HCMC. And although virtually all of the Ministry of Public Security officers that initially ran Saigon Tourist (and other tourism SOEs) have retired, an "MPS mentality still lingers" in the firm's corporate culture, according to the Director. "The Majestic or the Continental could easily be HCMC's Raffles, but as currently run are not compatible with international five star standards" says another international hotel manager. International hotel managers likewise point to an unwillingness to turn over control of key assets to foreigners as being behind Saigon Tourist's decision to reject numerous offers by international firms to manage either hotel.

18. (SBU) Private tourism companies, whether hotel/resort or tour companies, say competing with the SOEs is tough. The private tourism sector lacks the scale, capital and preferential access to state-owned airlines, railroads and real estate to compete meaningfully with state-owned tourism conglomerates. SOEs, especially Saigon Tourist, snagged most of prime HCMC hotel sites more than 30 years ago, and aren't interested in doing anything to benefit of their private sector competition. Private companies are shut out of many of the discounts offered by the 'Impressive Vietnam' discount promotion and can't effectively compete with Saigon Tourist's deep pockets and web of industry connections. Mr. My of Lua Viet Tourist Co. says Saigon Tourist seems to get 'first pickings' of discounted seats on VNA flights, and when asked about Impressive Vietnam's 15 percent discount on rail travel, simply noted that "Vietnam Railways has their own travel agency." Mr. Nguyen of Hoi An Express travel said Saigon Tourist receives preferential land use and lease arrangements from local authorities not available to his resort properties. He also noted that small tourism firms like his are not been able to take advantage of the GVN's Small Medium Enterprise loan subsidy program until they pay off existing loans. He predicts that fewer than 20 percent of Vietnam's private tourism firms would survive a downturn lasting an additional year or more.

Slowdown Forces Productivity Gains

19. (SBU) As elsewhere, the economic downturn has lead the

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industry to cut costs wherever possible. The manager of a foreign invested five star hotel in downtown HCMC fondly recalled the "salad days" of mid-2007. With occupancy rates averaging 85 percent, the hotel often auctioned the last vacant rooms to the highest bidder, and focused exclusively on the business travelers then flooding HCMC, ignoring the tourist market as "too price sensitive". Since the global downturn halved occupancy rates in the second half of 2008, the hotel has cut costs and contract employees. Whereas one thousand employees served 300 rooms in 2007, now 800 staff cover 500 rooms. Employees have been cross-trained to multi-task and have foregone a yearly raise, while new technology has cut expenditures for water and energy. As a result, the manager notes that although revenues are still down, profit conversion and productivity have increased, leaving the hotel well placed for the anticipated recovery.

Comment:

10. (SBU) The effects of the global downturn on Vietnam's tourism industry mimic its impact on the broader economy. While international tourism is down, domestic travel, part of a broader picture of steady domestic consumption, remains buoyant. A long downturn will likely trim the ranks of the private domestic tourism sector, concentrating even more of the industry in state hands, but will leave a more productive core of surviving private sector firms. Similarly to the export

manufacturing sector, tourism would also benefit from the GVN making use of the economic slowdown to "catch up" in transportation infrastructure. Improved transportation links between tourism destinations would encourage repeat visits and longer stays, allowing Vietnam to emerge from the economic downturn better able to compete with its neighbors for the tourist dollar. End comment.

11. (U) This cable was coordinated with Embassy Hanoi.
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